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AN IMPENDING DANGER TO THE REPUBLIC

BY DAVID JAYNE HILL

THE interest of the American people in the world war now raging has been intense, but it has been chiefly centered upon its military events and its probable political consequences. There is, however, another aspect of it of far greater significance for the future well-being of our country, namely, its effect upon our economic prosperity.

For more than a year the normal course of all international trade, both as regards exports and imports, has been interrupted. The activity of the most completely organized producing and distributing mechanism that has ever existed, the German Empire, though intrinsically unimpaired, has been completely arrested. Its factories have had no outlet, its mercantile marine has been temporarily imprisoned in its home ports or interned in the harbors of neutral nations, and its entire economic life, in so far as it was a world influence, has been almost totally suppressed.

We may not at first thought fully appreciate the full significance of this situation, or of the results that must follow the termination of it. To do so we must first attempt to realize the character and magnitude of the productive and distributive agency thus put out of commission. A population of more than sixty-five millions has suddenly been practically insulated,—a population in which the individual is more completely subordinated to the central directing control of the

State than any that has ever existed in any period of history, and in which organization has been carried to a degree of perfection never before realized. Supported by feudal traditions that bind the individual to absolute obedience to his overlord, and subjected to a military discipline that permeates every activity of life, the Empire is in effect an industrial, financial, and commercial unit, in which all its resources, all its energies, and all its purposes are subject to the command of one central authority.

The mines, the forests, the railroads, the wonderful waterways that render inland cities practically sea-ports, the banks, the factories, the great harbors, the extensive overseas shipping,—all these are so related, so centrally controlled, and so intimately directed, as to constitute closely correlated and mutually co-operative organs of the State.

All this splendid organization, industrial, commercial and financial, whose elements are so skillfully compacted, has been constructed for the purpose of conquering the foreign markets of the world. The results have tested its efficiency. In 1870 Germany controlled 7 per cent; in 1890, 10 per cent; and in 1910, 18 per cent of the world's commerce. From 1870 to 1911 German exportations increased from 1,300 to 8,100 million marks. In 1911 the conquest of the European market seemed definitive. In that year Germany's exportation in Europe reached a total of 6,100 millions of marks, while that of Great Britain was only 4,500 millions of marks. In the production of iron Germany had advanced to a proportion of 20 per cent of the world's output, as against 18 per cent for England; and had almost equalled the production of England in coal, claiming 20 per cent, as against 26 per cent, of the world's output.

If we inquire into the causes of these advances, we shall find that the primary cause was the absolute State control and direction of the industrial, commercial, and financial processes by which all the forces of the Empire were brought to their highest possible efficiency.

The methods employed were, first, personal and economic infiltration. Without ceasing to be German, the Germans went everywhere. In France, in England, in Belgium, in Italy, in the Orient, in South America, not to mention the United States, Germans sought and found the control of markets. By an extension of their banking system to every part of the world, by offering long credits, by a close study of lo-

cal needs, and the exercise of infinite pains in supplying them, serving every people in its own language and in conformity with its own tastes, this process of infiltration was gradually winning in the conquest of the world market.

To promote it no sacrifice was deemed too great. In war it is expected that victory will cost a certain loss of life. For the sake of ultimate triumph the State is ready to make this sacrifice. Why not then incur temporary losses for the sake of final victory in the bloodless battle of commercial supremacy? More than any other people the Germans were prepared to do this, and did it cheerfully. The same products of iron that in Germany itself sold for 120 marks a ton sold in England, South America, and the Orient for 103 to 110 marks, and in Italy for 75 marks. Where this process of "dumping" was too stoutly resisted by formidable competitors agreements as to price or a division of territory were proposed to them, and thus at least a partial success was obtained. "The Central Verband of Düsseldorf," writes an eminent Swiss authority, speaking of the situation before the war, "controls the iron market in Germany, Austria, Switzerland and Belgium"; and he foreshadows its extension until Germany, outside of England, is complete master of the world market.

An important factor in the acquisition of this ascendancy has been the system of protection to German industries, agrarian and manufacturing; and especially the net-work of deftly calculated commercial treaties based on advantageous concessions from an otherwise prohibitive tariff.

It cannot be doubted that in Europe generally, and in France, Russia, and England in particular, serious apprehension of an ultimate Germanic dominance in the economic world has been felt; but for nearly a decade a still more serious foreboding of ultimate failure on the part of the Germans themselves has been entertained. The reasons were manifold. The increased standard and cost of living in Germany produced by general industrial prosperity was perceived to be more and more difficult to maintain. The revival of enterprise in England, which has recently resulted in a considerable superiority in the extension of trade, the growing competition of other nations, the unexpected obstacles to a long hoped for commercial expansion in the Near and the Far East and the prospective ultimate exhaustion of the German mineral resources, together with certain political

events, combined to create a feeling of depression in Germany. The wonderful march of the Empire toward industrial supremacy seemed in danger of being checked. But the dream of commercial conquest was too dear to be abandoned. The glory of it made every impediment to its realization seem an evidence of intentional hostility. Germany, it was believed, had been denied her rightful place in the sun. She conceived herself encircled by enemies bent on her destruction. She must, therefore, obtain new resources, beat down her rivals, enlarge her borders, open new paths to international prestige and new markets for her products. The industrial machine she had so skillfully constructed must somehow be kept going, or ruin was believed to be in store. To what end had her great military power been created, if not to protect this economic mechanism? The existing conditions seemed to her to demand of the Empire a supreme struggle for existence. Was it not forced upon her by her rivals? That was undoubtedly the belief of the German people.

II

It is not my intention to comment upon the place this feeling of necessity may have held among the causes of the war. It is certain that if appearances in July, 1914, had proved to be realities, the German mastery of central Europe would now be an accomplished fact. The struggle has, however, developed into a far more gigantic contest than was expected. Still the great industrial-commercial mechanism of the German Empire is essentially untouched. Its activity is for the time arrested, but its integrity as a producing agency is thus far unaffected. When peace is re-established, unless that mechanism should in the meantime be greatly impaired, of which there is no immediate prospect, it will only require to be set in motion to become almost as effective as before.

Some day this mechanism will be in full operation. But under what circumstances? That is a question which at present it is impossible to answer. We can, however, consider two alternatives, either of which furnishes occasion for reflection. On the one hand, by the retention of Belgium and Poland the German Empire might find itself possessor of greatly increased mineral resources and a considerable augmentation of agricultural land, in addition to valuable sea-ports and a strategical position of dominating strength in

Europe; or, on the other, it might be found impossible to retain any of the conquered territory, and retirement behind the previous frontiers might be forced. But unless the military power of Germany is completely broken, its soil invaded, and its people reduced to a defenseless position, the economic mechanism will still remain intact. In the utmost extremity that can at present be considered probable, it will remain practically unaffected. The population may be reduced in numbers, but even with serious losses it is probable that not less than sixty-odd million people, including representatives of every branch of industrial life, will survive the termination of the war. Whatever, therefore, may be the consequences of the present conflict, when peace is finally declared the economic energies of Germany will soon afterward be restored to activity, with a degree of efficiency that will have to be reckoned with. Confining ourselves to actual facts, at the present moment about four-fifths of the iron and steel industries of France and about three-fifths of the French coal supply are said to be in the possession of the German armies, besides practically the whole of Belgium, long regarded as the workshop of Europe. It is perhaps less widely known that Warsaw, about which the battle in Poland has so fiercely raged, is noted for its iron ore, and that Riga and Libau are centers of the great iron and steel industries of Western Russia.

If the military preponderance of Germany in those regions should be maintained, that fact would give to the economic question a still greater and more portentous significance; but of that it is not my purpose here to speak.

Confining our attention for the present to the industrial-commercial aspects of the international situation at the end of the war, we may inquire what will be the effect of the re-entrance of the German productive and distributing mechanism into the sphere of world industry and commerce? While the former efficiency of this unique combination of energies and control will, as it would appear, be but little impaired, its field of operation will be radically changed and effectually restricted.

The raw materials of manufacture will not be wanting, for the temporary closing of the German ports has been a misfortune to neutral nations which will cause them to hail with satisfaction their reopening. The factories are still standing, the operative and directing forces will be available, and

there will be no hindrance, unless perhaps a temporary demand for capital, to their resuming their activity. But the stringency of capital will not deter the Empire from employing its means of recuperation. Its debt will be chiefly to its own people. Its imports of raw material will be paid for as needed by its manufactured exports. The standard of living may be, and probably will be, lowered; but no people is better prepared to develop strength in adversity. The industry, the frugality, the thrift, and the spirit of endurance of the German people will not be found wanting under any pressure of necessity. No people can more bravely pursue the path of personal sacrifice. They will be obliged to live and work as they can, but they will live and they will work. The great productive and distributing machine will be again in motion, with long hours of labor, hard economy in living, intelligent technical control, mutual support by all the factors of production, and the incessantly watchful direction of the State.

Of all this there can hardly be a doubt. But what of the disposal of this enormous quantity of manufactured commodities? Where are they to find a market? The supply will be redundant, but what of the demand? The great merchant vessels will again plow the deep, but whither will their prows be directed?

The German colonies are not likely to be restored. The acquisition of new ones is not a promising venture. To the populations of England, Russia, France and Italy,—which with the United States have been the chief markets of German products,—the mark “Made in Germany” will not for a generation at least be a recommendation. Although England is a free-trade country, she and her colonies will find means to exclude the manufactures of Germany for a long time to come. Already last September delegates of France and Italy met in the Villa d’Este on Lake Como and developed an *entente* to prevent the future trade of Germany in these countries and to work together industrially, commercially, and financially. The expected expiration of the German commercial treaty with Russia in 1917 has now been anticipated by the state of war. Even before the war began it was understood that Russia would not accord to Germany the tariff advantages of the then existing treaty, which were very great. What the loss of Russian trade means to Germany is evident when it is remembered that about 1,400 million marks worth of German goods were imported into Rus-

sia in 1913, or 52.7 per cent of Russia's total importation. The loss of the English market is of even greater importance, for Great Britain was in 1912 Germany's largest customer, taking, chiefly for redistribution, more than all the Americas together.

The exports of Germany, which consisted chiefly in manufactured articles, in 1913 amounted to \$2,521,800,000, or about 10,500 million marks. With the British, Russian, Italian, and French markets practically closed to German products, where is this enormous output, or even a considerable percentage of it, to find a market? This must be sought chiefly in the neutral countries, of which the United States has the greatest capacity of absorption.

Must we not then look forward to an unprecedented pressure upon the assimilating possibilities of the United States, accompanied by all the devices for winning a market which ingenuity can suggest,—low prices, long credit, expert agency activity, in short, wholesale “dumping”?

Such an event might rejoice the hearts of those who accept the doctrine of “a tariff for revenue only,” but what of its effect upon our own industries, not to speak of our foreign trade in manufactured articles? The narrowing of the channel increases the force of the stream. There would be for us to contend with not only the general revival of industry in all the countries now at war, but this most formidable of all contestants, driven by exclusion from other markets to force itself into ours, at the cost of great sacrifice no doubt, but under the pressure of a relentless necessity; for the productive and distributive mechanism of the German Empire simply *must* be kept in action, or Germany will fail as an industrial country, her population will become discontented, emigration will follow, and the scepter of industrial supremacy which she has sought will pass to other hands.

In Germany itself there is nothing novel or doubtful in this assertion. Writing in 1913, Dr. Karl Helfferich, director of the Deutsche Bank, and at present Imperial German Minister of Finance, declared:—

With the negotiation of treaties for securing the interests of our commerce and shipping, we have not been, and dare not be, satisfied to stop. Our dependence upon foreign countries, the counterpart to the great advantages derived by us from having taken our place in world-economy, calls for stronger counterpoises. Such a counterpoise can be created by German enterprise and German capital es-

tablishing a field for their activity beyond the borders of our own country, and thereby gaining a direct influence over foreign territories that may be important to us as sources of supply and as markets. This can be done in an effectual way by acquiring oversea colonial possessions; for in such a case economic influence is secured and strengthened in the most effective manner possible by political domination. In so far, however, as this way is limited or barred up altogether . . . our end must be reached by means of a far-sighted financial and economic activity.

“Direct influence over foreign territories as sources of supply and as markets,”—that is the end aimed at. As means for the accomplishment of that end, the most effectual is thought to be the acquisition of oversea colonial possessions. But where are these to be obtained? The next best means is a “far-sighted financial and economic activity.” The experience of the past shows what that activity will be,—a vigorous protective policy, government aid to enterprise, and the complete co-operation of the financial and industrial systems under State supervision.

And upon whom is this “far-sighted financial and economic activity” to be directed? Upon all countries, no doubt, that can furnish supplies or afford a market. These must be sought, however, chiefly from the countries that have been neutral during the present war,—the others being practically inaccessible; and, as a consequence, the effort to force a market in these will be more concentrated and more energetic than ever before. Is it unreasonable to believe that the United States will offer the greatest temptations for the exercise of this activity, and that it will be the chief objective of these efforts?

III

In what condition then is the United States, or will it be at the time when this “pacific penetration” begins, to secure its own industrial and commercial interests, and especially to maintain its standard of living for the working classes? Shall we be ready to meet the situation on equal terms?

At this point it is important to remember that it is not the German industrial and commercial revival alone that this country will have to face, but the rivalry of all other nations. These will be financially straitened, but they will be all the more active. Their common characteristic will be want of capital, and a consequent general lowering of the standard

of living among them; for where money is scarce and competition in the sale of products is intense wages must inevitably be reduced.

What then can be done under a tariff for revenue only to maintain the standard of living for the working people of the United States? Even if the dumping of cheap foreign goods should diminish the cost of many commodities, it would not make up for its effect upon our domestic industries. Only the rich and the persons whose incomes could not be affected would profit by it. If our own industries are to be put out of business by cheap foreign goods, where are the average man's means of living to come from? Who will offer him employment? And upon what terms will he be employed?

Undoubtedly, whether theoretically desirable or not, the end of the present war will force upon the United States the restoration of a protective tariff. The issue seems unavoidable.

At present we are as unprepared in an economic as we are in a military sense. Our present customs tariff neither protects nor produces a revenue. Were it not for the war, we should even now be closing our factories. As it is, the manufacturing nations of Europe are engaged in a conflict that absorbs their chief energies, giving us for the moment an opportunity to manufacture, if we please, what they would otherwise be exporting to us, and at the same time artificially stimulating a certain class of industries by the production of instruments of destruction. Were it not for these two temporary accidents we should probably at this moment, under our present legislation, be closing our workshops and discharging our workmen.

I say under our "present legislation," for it has no scientific relation to the facts of international industry and commerce. It is a piece of mere Congressional guess-work, from which all substantial evidence has been systematically excluded. While other Governments employ their intelligence and exert their influence to encourage the highest efficiency of industry, ours applies a dogma that has repeatedly been refuted to a situation so complicated that few persons in the United States fully comprehend it.

I make no plea for any personal or private interests, and I commend no action that has these for its object. What I assert is, that there is at present no competent governmental authority, based on exact knowledge and expert judgment,

engaged in the study and explanation to the people of the precise action that should be taken by our Government with regard to the most vital interest of the country as a whole.

But there is in our situation a more fatal weakness than the absence of a scientific economic policy. Our current philosophy of legislation is speculative rather than practical. At the time when we should be demanding expert knowledge and advice as the basis of public action, the tendency is to appeal to the inexpert, the preoccupied, and the inexperienced, to decide the most important public questions.

Ours is, in truth, intended to be a People's Government, a Government based on the principle that the State exists for the individual, and not the individual for the State. It should be having to-day, as it has had in the past, its opportunity to show its strength and its beneficence. For this our institutions, as provided for in our Federal Constitution, furnish the necessary means; but, instead of employing them, we are engaged in the diversion of defaming them. We are proposing in this critical hour, when constructive statesmanship is needed as never before in our country's history, the destruction of our fundamental laws in order to give place to a medley of experiments of doubtful tendency. For deliberate, well-considered public action we are proposing the popular initiative, referendum, and recall; thus opening up a prospect of uncertainty and confusion in matters of legislation at a time when certainty and clearness are most needed.

How vital this procedure is becomes evident when we consider its effects upon industrial and commercial enterprise. Who is ready to assume new risks of business in a time of serious doubt as to what new conditions future laws may impose? And when the tendency is to thwart and hamper rather than to encourage and promote great enterprises, who can wonder at the progress of a creeping paralysis in our economic life which the galvanic movements resulting from a transient stimulus cannot disguise?

Will the country awaken to the realities with which it has to deal, or will it remain passive and inert? That is the question that presses home upon us.

With the greatest material resources of any nation in the world, with guaranteed individual rights and liberties not possessed by any other people, with traditions of sacrifice that should inspire us with a fervent patriotism, with a population unsurpassed in versatility and initiative, and with

opportunities unequalled in the world, it is time to suppress the exploiters of class feelings and selfish passions, to silence the flatteries of the demagogue, and to adjust ourselves to our task of national development. We need no State direction of our private affairs, but we do need competent advice and information regarding public interests. Action without enlightenment, equally with complete inaction, will incur a serious danger to the country. We cannot afford to wait and see what will happen. We must have a scientific economic policy adapted to our national needs. In it must be included three essential elements: (1) It must protect the home industries that really need protection; (2) it must protect all our national rights on the high seas; and (3) it must protect American life and property wherever they legally exist. If our Republic is not prepared to do this, American citizenship has but little value. But if it is to offer this threefold protection, it will require for its support a revival of patriotism similar to that which reconstituted the integrity of the Union when it was exposed to the tests of the Civil War.

DAVID JAYNE HILL.